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Legislative Audit Division

State of Montana

Report to the Legislature

October 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Montana Historical Society

This report contains four recommendations for improving Historical Society operations. The recommendations relate to:

- **Complying with federal cash management regulations**
- **Complying with policies governing the management of historical treasures**
- **Recording financial activity in accordance with state law and policy**
- **Complying with state law regarding quarterly audits of the Moss Mansion**

Direct comments/inquiries to:
Legislative Audit Division
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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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Legislative Audit Division
Room 160, State Capitol
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October 2004

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Montana Historical Society, including the Montana Lewis and Clark Bicentennial Commission (Bicentennial Commission), for the two fiscal years ended June 30, 2004, and the Montana Heritage Preservation and Development Commission (Heritage Commission), for the fiscal year ended June 30, 2003. Included in this report are four recommendations to the Historical Society to improve operations for associated programs.

The written response to the audit recommendations are included at the end of the audit report. We thank the Society, Heritage Commission, Bicentennial Commission, and their staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2004

Montana Historical Society

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, John Fine, Brenda Kedish and Amber Long.

Table of Contents

Appointed and Administrative Officials ii
Report Summary S-1

Introduction **1**
General 1
Montana Historical Society Background 1
Heritage Commission Background 3
Lewis and Clark Bicentennial Commission Background 3
Prior Audit Recommendations 4

Findings and Recommendations **5**
Cash Management 5
Over Historic Treasures 5
Accounting Misstatements 7
Indirect Costs 7
Equipment and Intangible Assets 8
Unsupported Transaction 9
National Park Service Grant 9
Loan Proceeds 9
Improper Classification of Revenues and Expenditures 9
Quarterly Audits of the Moss Mansion 10

Independent Auditor's Report & Agency Financial Schedules **A-1**
Independent Auditor's Report A-3

Schedule of Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004 ..... A-5

Schedule of Changes in Fund Balances
For the Fiscal Year Ended June 30, 2003 ..... A-6

Schedule of Total Revenues & Transfers-In
For the Fiscal Year Ended June 30, 2004 ..... A-7

Schedule of Total Revenues & Transfers-In
For the Fiscal Year Ended June 30, 2003 ..... A-8

Schedule of Total Expenditures & Transfers-Out
For the Fiscal Year Ended June 30, 2004 ..... A-9

Schedule of Total Expenditures & Transfers-Out
For the Fiscal Year Ended June 30, 2003 ..... A-10

Notes to the Financial Schedules A-11

Agency Response **B-1**
Montana Historical Society B-3

Appointed and Administrative Officials

Montana Historical Society Board of Trustees

		Term Expires
Lee Rostad, President	Martinsdale	7-1-2009
Burton Bosch	Havre	7-1-2005
Ana Brenden	Scobey	7-1-2005
Steve Browning	Helena	7-1-2007
Judy Cole	Hysham	7-1-2006
Thomas Foor	Missoula	7-1-2008
Shirley Groff	Butte	7-1-2005
Ed Henrick	Fairmont	7-1-2009
William M. Holt	Lolo	7-1-2008
Sharon Lincoln	Billings	7-1-2008
Robert Morgan	Clancy	7-1-2006
Mary Murphy	Bozeman	7-1-2007
Thomas Siebel	Wolf Creek	7-1-2006
James Utterback	Helena	7-1-2009
Don Wetzel	Bozeman	7-1-2007

Montana State Historical Preservation Review Board

		Term Expires
Douglas E. Johnson, Chair	Hamilton	10-1-2006
Steve Aaberg	Billings	10-1-2004
Rafael Chacon	Lolo	10-1-2004
Kathy Doeden	Miles City	10-1-2007
Paul Filicetti	Missoula	10-1-2004
Conrad Fisher	Lame Deer	10-1-2006
Marcella Knedler	Geraldine	10-1-2005
James Rea	Glasgow	10-1-2007
Robert Valach	Lewistown	10-1-2007

Montana Lewis & Clark Bicentennial Commission

		Term Expires
Homer Staves, Chair	Billings	10-1-2005
Darrell Martin, Vice Chair	Hays	10-1-2006
Marcy Hamburg	Sidney	10-1-2006
Darrell Kipp	Browning	10-1-2005
John "Jack" Lepley	Fort Benton	10-1-2006
Wyman McDonald	Polson	10-1-2004
Jeanette Rasmussen	Choteau	10-1-2004
Hal Stearns	Helena	10-1-2004
Betty Stone	Glasgow	10-1-2005
Betsy Baumgard, Director, Travel Montana, Department of Commerce		
Doug Monger, Administrator, Parks Division, Department of Fish, Wildlife & Parks		
Arnie Olsen, Director, Historical Society		

Montana Historical Society Administrative Officials

Arnie Olsen, Director, Historical Society
Dennis Drake, Chief of Operations, Historical Society
Clint Blackwood, Executive Director, Montana Lewis and Clark Bicentennial Commission
Sharon McCabe, Manager, Centralized Services Division
Dick Morrow, Acting Centralized Services Division Manager as of August 10, 2004

For additional information concerning the Montana Historical Society, contact Dick Morrow, Acting Centralized Services Manager at:

225 North Roberts
PO Box 201201
Helena, MT 59620-1201
(406) 444-0702
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Montana Historical Society

This report documents the results of our financial-compliance audit of the Montana Historical Society (Society), including the Montana Lewis and Clark Bicentennial Commission for the two fiscal years ended June 30, 2004, and the Montana Heritage Preservation and Development Commission for the fiscal year ended June 30, 2003. The previous audit report contained four recommendations. Of these, three were implemented and one was partially implemented.

This report contains four recommendations. The recommendations address areas where the Society can improve compliance with federal regulations, state laws and regulations, and Society policies.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the Society's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Society draw federal funds in accordance with federal regulations. 5

Agency Response: Concur. See page B3.

Recommendation #2

We recommend the Society comply with policies governing the management of its collections and follow its monitoring procedures to ensure all artifacts are properly controlled. 7

Agency Response: Concur. See page B3.

Recommendation #3

We recommend the Society provide training to accounting staff concerning accounting policies issued by the Accounting Bureau of the Department of Administration. 10

Agency Response: Concur. See page B7.

Recommendation #4

We recommend the Society manage the Moss Mansion in compliance with provisions of section 22-3-603(4), MCA, or if necessary, seek legislation to have the law changed..... 11

Agency Response: Concur. See page B8.

Introduction

General

We performed a financial-compliance audit of the Montana Historical Society (Society), including the Montana Lewis and Clark Bicentennial Commission for the two fiscal years ended June 30, 2004, and Montana Heritage Preservation and Development Commission, for the fiscal year ended June 30, 2003. The objectives of the audit were to:

1. Determine if the Society, Heritage Commission, and Bicentennial Commission complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the management and internal controls of the Society, Heritage Commission, and Bicentennial Commission.
3. Determine if the financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2004.
4. Determine the status of the prior audit recommendations.

This report contains four recommendations to the Society. Other areas of concern deemed not to have a significant effect on the successful operations of the Society, Heritage Commission, and Bicentennial Commission are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations contained in this report.

Montana Historical Society Background

The Historical Society of Montana was originally organized under the provisions of an act of the Legislative Assembly of the Territory of Montana in 1865. The Society received its first appropriation from the state of Montana in 1891. "An act to Perpetuate the Historical Society of the State of Montana," approved in 1949, established the Society as an agency of state government. The purpose of the Society is to protect, preserve, and interpret Montana and western American history for the benefit of the public. The Society conducts its operations in the following programs:

Introduction

The Administration Program (22.5 FTE) provides supervision and coordination for all programs of the Society. Activities include public information, accounting and business management, financial reporting, fund-raising, security and building management. The administration program is also responsible for managing the Society's museum store. The museum store operates in response to public demand (primarily through direct mail) from a broad base of people interested in western history.

The Library Program (13.8 FTE) is the Society's research center and incorporates three functional sections: the library, the archives, and the photograph archives. The staff is responsible for collecting, organizing and preserving historical photos, books, and other research materials relevant to Montana. The staff also assist the public and other Society program staff in the use of research material.

The Museum Program (12.92 FTE) collects fine art and historical archeological and ethnological artifacts that pertain to Montana and its adjoining geographic region. In addition to caring for the Society's museum collections, program staff conduct research, produce exhibits, sponsor public programs, answer reference requests from the public and provide technical assistance to other museums. The museum also provides education and tours for the public.

The Publications Program (6 FTE) consists of two areas: Montana, The Magazine of Western History and the Montana Historical Society Press. Montana, The Magazine of Western History assists the Society in fulfilling its statutory mission of preserving Montana history and providing educational outreach. The Montana Historical Society Press publishes books on the history of Montana and the northern plains.

The Historic Sites Preservation Program (9.5 FTE) provides assistance to people in the state to preserve significant historic and prehistoric buildings and sites. Society staff is available to provide

advice, assistance, and support to people with these sites in their ownership or care.

The Society also performs certain administrative duties for the Bicentennial Commission and the Heritage Commission (for fiscal year 2003) as provided by the enabling legislation for the commissions. In this capacity, the Society directs and supervises commission budgeting, record keeping, reporting and related administrative and clerical functions. The Society also collects and deposits revenue, provides staff, submits reports and budget requests, and distributes required notices, rules or orders on behalf of the commissions. The director of the Society is responsible for representing the commissions in communications with the Governor.

Heritage Commission Background

The 1997 Legislature established the Heritage Commission for the purpose of acquiring properties, on behalf of the state, which possess outstanding historical value, exceptional qualities worth preserving, are genuinely representative of the state's culture and history, and demonstrate the ability to become economically self-supporting. In May 1997, the Heritage Commission finalized the purchase of properties in Virginia City and Nevada City. The purchase included numerous buildings, hotels, retail operations, theaters, rental homes, one and a half miles of railroad track, a locomotive and railroad cars, many old vehicles, and thousands of artifacts. Since the purchase, the Heritage Commission has operated these properties as an open-air museum. A private individual donated historic Reeder's Alley in Helena to the Heritage Commission in January 2002. The Heritage Commission was attached to the Society for administrative purposes, but was transferred to the Department of Commerce, as the result of Senate Bill 232, of the 2003 Legislative Session on July 1, 2003.

Lewis and Clark Bicentennial Commission Background

The Legislature established the Bicentennial Commission for coordinating and promoting observance of Montana's bicentennial commemoration of the Lewis and Clark Expedition and the importance of the roles played by Montana's Native American people to the Lewis and Clark Expedition. The commission may cooperate with national, regional, statewide, and local events

promoting the bicentennial; plan and coordinate events; engage in fund-raising activities; and promote public education concerning the Lewis and Clark Expedition and the history and culture of Montana's Native American people at the time of the Lewis and Clark Expedition. By law, the Bicentennial Commission is administratively attached to the Society. Its existence terminates December 31, 2007.

Prior Audit Recommendations

We determined the status of the four prior audit recommendations directed to the Society and Heritage Commission. The Society and Heritage Commission implemented three and partially implemented one recommendation. The Society has not complied with policies governing the management of its collections. Refer to page 5 for discussion regarding controls over historic treasures.

Findings and Recommendations

Cash Management

The Society did not request federal cash in accordance with federal regulations.

During fiscal years 2002-03 and 2003-04, the Society received grants from the National Park Service of $573,323 and $586,071, respectively. Both grant agreements required the Society to request federal funds on a reimbursement basis and minimize the time between the draw of funds from the federal government and their disbursement for federal program purposes. To comply, the Society must limit each draw to the minimum amount needed and must time the draw to coincide with actual, immediate cash disbursements for federal program costs.

In reviewing the Society's draws of federal cash, we noted seven instances where the Society drew in excess of its needs. In these instances, the Society had cash in excess of its needs for periods of 29 to 169 days, with positive cash balances ranging from $29,567 to $268,103.

Society personnel made large draws because they expected more expenditures to be paid out, but payments didn't occur until much later. Personnel stated it was easier to draw large amounts of cash less frequently than to draw smaller amounts of cash more frequently.

Recommendation #1
We recommend the Society draw federal funds in accordance with federal regulations.

Controls Over Historic Treasures

The Society does not document the state's historic treasures in accordance with Society policy, nor do they monitor artifacts on a regular basis.

The Society collects historical artifacts pertaining to the history of Montana. Currently, the museum has over 50,000 historical artifacts in its collection. They receive approximately 1,000 new artifacts

each year. The Society has established procedures to ensure all collections are secured and properly managed. Society policy directs employees to prepare both accession and location cards for each historical artifact, that is either owned by or on loan to the Society. The accession card contains a description of the artifact and a corresponding location card contains the physical location of the artifact.

We sampled 14 artifacts and traced them back to the accession and location cards. From this sample, we noted the following: one of the artifacts wasn't tagged or given an identification number, one of the accession cards contained the wrong description of the artifact, five of the artifacts didn't have location cards, and four of the artifacts didn't have accession cards. Even though the Society did not have accurate accession and location cards for these items, accurate records were found by looking to other files the Society maintains on its collections.

In addition, the Society has not completed a physical inventory of all museum artifacts in over 20 years. The last spot inventory review was completed in December of 2003, where the Society reviewed 20 artifacts and found five of the location cards contained an incorrect physical location and three of the items had no location card. Prior to this, they completed inventories on selected Society collections over the past 10 years. They also inventory all artifacts when placing them on exhibit in the museum.

The Society's procedures state, "the documentary value of a museum, library, and archival collection is the principle criteria of excellence and requires accession cards be of the highest order, accuracy, and completeness. Items in the collections shall be as completely documented as possible."

Historical collections can have high monetary value, sentimental value, and importance to the people of Montana. If accurate records do not exist, there is the potential for lack of availability for use,

theft, or loss of items. The Society does not adequately document its museum collections, currently valued at $56 million.

Society personnel state they do not have the funds or the staff resources to monitor artifacts on a regular basis. Inventories are performed when they receive grant funds to do so. Society management estimates the Society would need an additional $53,757 annually for 1.3 FTE, plus a minimum of $5,000 in funding for administrative expenses for the next eight years in order to adequately monitor artifacts on a continuing basis.

Recommendation #2

We recommend the Society comply with policies governing the management of its collections and follow its monitoring procedures to ensure all artifacts are properly controlled.

Accounting Misstatements

The Society has made several accounting misstatements in the state's accounting system due to the accounting staff not receiving adequate training on state accounting policies.

State law requires the Society to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money, for which it is accountable, in accordance with generally accepted accounting principles. This report section identifies areas where transactions recorded by the Society resulted in misstatements on the accounting records.

Indirect Costs

The Society receives financial assistance from the federal government to operate the State Historic Preservation Office and the Lewis & Clark Bicentennial Commission. As part of this assistance, the Society receives funding to cover some of its indirect costs. Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective. Indirect costs include both the overhead costs originating in a state agency performing a grant or contract and the cost of central government services distributed through the Statewide Cost Allocation Plan and not otherwise treated

as direct costs. State accounting policy requires all federal indirect cost recoveries received to be deposited in the federal special revenue fund as revenue using a Federal Indirect Cost Recoveries account. We found the Society didn't record these funds in a revenue account tied to the Federal Indirect Cost Recoveries, but recorded portions of these costs as "Federal" and "Charges for Services" revenue in fiscal years 2002-03 and 2003-04. Society staff indicated they were not aware there was a difference in reporting the revenue as federal versus federal indirect cost recoveries. The following table illustrates the total misstatements on the accounting records as a result of these errors.

Table 1

Accounting Misstatements

	Fiscal Year 2002-03 Over/(Under) Statement	Fiscal Year 2003-04 Over/(Under) Statement
Enterprise Fund Charges for Services	$ 281	$ 19,809
Federal Special Revenue Fund Federal	$ 87,482	$ 98,127
Federal Indirect Cost Recoveries	($ 87,763)	($ 117,936)

Source: Compiled by the Legislative Audit Division from Statewide Accounting, Budgeting, and Human Resources System.

Equipment and Intangible Assets

The Society receives numerous artifacts each year through donations. When items are donated to the Society, staff are required to enter the asset on the state's accounting system. There are two ledgers to the state's accounting system. In fiscal year 2002-03, the Society recorded these fixed assets in the wrong ledger. As a result, equipment & intangible asset expenditures are understated by $370,000 in fiscal year 2002-03 and overstated by $370,000 in fiscal year 2003-04 in the State Special Revenue Fund on the Schedule of Total Expenditures & Transfers-Out.

Unsupported Transaction

During our audit, we reviewed a sample of 20 expenditure transactions and noted one transaction that was made to the State Special Revenue Fund in fiscal year 2002-03 for $14,507 that was not supported. Society personnel believe the transaction was made to correct various other entries, but had no support for the correction or even that this was a correcting entry.

National Park Service Grant

The Society had $194,216 in deferred revenue from a federal grant received from the National Park Service at the end of fiscal year 2001-02. These funds were spent during fiscal year 2002-03 and the Society recorded the $194,216 as a prior year revenue rather than current year revenue. As a result of this classification error, prior year revenues are overstated by $194,216 and actual budgeted revenues and transfers-in are understated by $194,216 in fiscal year 2002-03. Society staff indicated they were not aware there was a difference in how they reported the revenue.

Loan Proceeds

The Bicentennial Commission entered into an agreement with the Board of Investments for a loan in fiscal year 2001-02. The commission received $100,000 in loan proceeds but did not record the revenue. In fiscal year 2002-03 the Society corrected this error by recording the revenue associated with the loan proceeds. As a result, Other Financing Sources revenue is overstated by $100,000 in the State Special Revenue Fund on the Schedule of Total Revenues and Transfers-In for the fiscal year ended June 30, 2003. Society staff indicated the Accounting Bureau of the Department of Administration had issued three management memos on loan proceeds within a three-year period, which caused confusion on how this activity should be recorded.

Improper Classification of Revenues and Expenditures

The Society receives refunds of unspent grant funds from outside parties and reimbursements, from organizations that sponsor conferences held by the Society. When the Society receives these refunds or reimbursements, they record the funds as revenue. State accounting policy directs the Society to decrease the original expenditure for refunds of overpayments received by outside parties for amounts previously recorded as expenditures. As a result,

revenues and expenditures are overstated by $10,326 and $40,088 in various funds on the Schedule of Total Revenues and Transfers-In and the Schedule of Total Expenditures and Transfers-Out for the fiscal years ended June 30, 2004 and June 30, 2003, respectively. Society staff were not aware they could decrease the original expenditure.

In addition, the Society recorded various Grants, Contracts, Donations, and Abandonments revenue transactions as Sale of Documents, Merchandise and Property. As a result, revenue is understated by $58,660 and $23,172 in various funds on the Schedule of Total Revenues and Transfers-In for the fiscal years ended June 30, 2004 and June 30, 2003, respectively.

The Accounting Bureau of the Department of Administration provides guidance to state agencies on the accounting for indirect costs, equipment and intangible assets, expenditure abatements, and loan proceeds. Society personnel do not always follow the Accounting Bureau's accounting policies in recording transactions to the state's accounting system. In the instances noted above, Society staff indicated they do not understand the significant difference in how they record transactions, and how the Accounting Bureau instructs them on how to record transactions. Society personnel can limit the types of errors noted above by obtaining an understanding of state accounting policies.

Recommendation #3

We recommend the Society provide training to accounting staff concerning accounting policies issued by the Accounting Bureau of the Department of Administration.

Quarterly Audits of the Moss Mansion

The Society is not in compliance with state law requiring quarterly audits of the Moss Mansion.

The Society acquired a 61.5 percent ownership of the Moss Mansion in 1987. The City of Billings owns the remaining 38.5 percent

interest. Section 22-3-603(4), MCA, states all funds must be accounted for pursuant to the management contract and audited quarterly by the Society or its designee, and expenditures of the funds may be used only for the operation, maintenance, preservation, repair, renovation, and management of the property. This law applies to all facilities owned by the Society. Currently, the only facility the Society owns, which is required to be audited under this section, is the Moss Mansion.

Society personnel indicated they performed quarterly audits of the Moss Mansion up until fiscal year 1998-99, at which time they received significant budget cuts and no longer had the funds or the staff resources to perform these quarterly audits. The Society plans to seek legislation to have the law changed and has drafted an amendment to the law, which changes the language from "audited quarterly" to "reviewed biennially."

Recommendation #4

We recommend the Society manage the Moss Mansion in compliance with provisions of section 22-3-603(4), MCA, or if necessary, seek legislation to have the law changed.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Historical Society (Society) for each of the fiscal years ended June 30, 2004, and 2003. The information contained in these financial schedules is the responsibility of the Society's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Society's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Society for each of the fiscal years ended June 30, 2004, and 2003, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 11, 2004

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MONTANA HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund
FUND BALANCE: July 1, 2003	$ (111,743)	$ 1,877,147	$ 0	$ 575,206	$ 851,023
ADDITIONS					
Budgeted Revenues & Transfers-In		1,000,807	913,169	861,729	
NonBudgeted Revenues & Transfers-In	846	982,728			236,708
Prior Year Revenues & Transfers-In Adjustments		(3,256)		421	
Direct Entries to Fund Balance	1,789,147	(722,576)			
Total Additions	1,789,993	1,257,703	913,169	862,150	236,708
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	1,760,411	1,110,614	960,289	901,190	
NonBudgeted Expenditures & Transfers-Out		925,874	16,000	111,161	16,561
Prior Year Expenditures & Transfers-Out Adjustments	(1,115)	(2,860)		(63,939)	
Total Reductions	1,759,296	2,033,628	976,289	948,412	16,561
FUND BALANCE: June 30, 2004	$ (81,046)	$ 1,101,222	$ (63,120)	$ 488,944	$ 1,071,170

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund
FUND BALANCE: July 1, 2002	$ (95,387)	$ 1,773,943	$ (189,945)	$ 476,795	$ 837,859
ADDITIONS					
Budgeted Revenues & Transfers-In	2,000	1,360,012	726,666	1,010,357	
NonBudgeted Revenues & Transfers-In	562	445,675		5,441	29,629
Prior Year Revenues & Transfers-In Adjustments		98,684	194,216		
Direct Entries to Fund Balance	1,786,435	520,729	189,945		
Total Additions	1,788,997	2,425,100	1,110,827	1,015,798	29,629
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	1,805,573	2,029,665	899,618	817,242	
NonBudgeted Expenditures & Transfers-Out		297,294		161,101	16,465
Prior Year Expenditures & Transfers-Out Adjustments	(220)	(5,063)	21,264	(60,956)	
Total Reductions	1,805,353	2,321,896	920,882	917,387	16,465
FUND BALANCE: June 30, 2003	$ (111,743)	$ 1,877,147	$ 0	$ 575,206	$ 851,023

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		$ 190,514				$ 190,514
Taxes	$ 846					846
Charges for Services		4,116		$ 141,200		145,316
Investment Earnings		39,132			$ 114,103	153,235
Sale of Documents, Merchandise and Property		60,375	$ 696	659,198	14,355	734,624
Grants, Contracts, Donations and Abandonments		1,684,977	1,000	15,000	108,250	1,809,227
Other Financing Sources		1,165		46,752		47,917
Federal			911,473			911,473
Total Revenues & Transfers-In	846	1,980,279	913,169	862,150	236,708	3,993,152
Less: Nonbudgeted Revenues & Transfers-In	846	982,728			236,708	1,220,282
Prior Year Revenues & Transfers-In Adjustments		(3,256)		421		(2,835)
Actual Budgeted Revenues & Transfers-In	0	1,000,807	913,169	861,729	0	2,775,705
Estimated Revenues & Transfers-In		1,240,728	1,815,008	1,046,452		4,102,188
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (239,921)	$ (901,839)	$ (184,723)	$ 0	$ (1,326,483)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		$ (160,874)		$ (15,000)		$ (175,874)
Charges for Services		2,816		48,500		51,316
Investment Earnings		(25,000)				(25,000)
Sale of Documents, Merchandise and Property		5,252	$ (304)	(218,223)		(213,275)
Grants, Contracts, Donations and Abandonments		40,705	1,000			41,705
Other Financing Sources		(102,820)				(102,820)
Federal			(902,535)			(902,535)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (239,921)	$ (901,839)	$ (184,723)	$ 0	$ (1,326,483)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		$ 206,321				$ 206,321
Taxes	$ 562					562
Charges for Services	2,000	157,263		$ 112,007		271,270
Investment Earnings		24,262			$ 19,139	43,401
Sale of Documents, Merchandise and Property		83,836	$ 3,097	846,844	1,585	935,362
Rentals, Leases and Royalties		152,476				152,476
Miscellaneous		1,025				1,025
Grants, Contracts, Donations and Abandonments		1,052,377			8,905	1,061,282
Other Financing Sources		226,811		56,947		283,758
Federal			917,785			917,785
Total Revenues & Transfers-In	2,562	1,904,371	920,882	1,015,798	29,629	3,873,242
Less: Nonbudgeted Revenues & Transfers-In	562	445,675		5,441	29,629	481,307
Prior Year Revenues & Transfers-In Adjustments		98,684	194,216			292,900
Actual Budgeted Revenues & Transfers-In	2,000	1,360,012	726,666	1,010,357	0	3,099,035
Estimated Revenues & Transfers-In	2,000	2,895,300	1,161,515	1,409,000		5,467,815
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (1,535,288)	$ (434,849)	$ (398,643)	$ 0	$ (2,368,780)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		$ (141,619)				$ (141,619)
Charges for Services		(320,237)		$ (52,993)		(373,230)
Investment Earnings		(3,525)				(3,525)
Sale of Documents, Merchandise and Property		25,963	$ 697	(341,156)		(314,496)
Rentals, Leases and Royalties		(922,524)		(2,000)		(924,524)
Grants, Contracts, Donations and Abandonments		(172,033)				(172,033)
Other Financing Sources		(1,313)		(2,494)		(3,807)
Federal			(376,546)			(376,546)
Federal Indirect Cost Recoveries	$		(59,000)		$	(59,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (1,535,288)	$ (434,849)	$ (398,643)	$ 0	$ (2,368,780)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	HISTORIC PRESERVATION PROGRAM	LEWIS & CLARK BICENTENNIAL	LIBRARY PROGRAM	MUSEUM PROGRAM	PUBLICATIONS PROGRAM	TOTAL
Personal Services							
Salaries	$ 809,253	$ 304,982	$ 92,174	$ 450,369	$ 308,804	$ 156,691	$ 2,122,273
Employee Benefits	240,328	92,243	25,462	143,751	100,026	49,549	651,359
Personal Services-Other	3,568			74		2,552	6,194
Total	1,053,149	397,225	117,636	594,194	408,830	208,792	2,779,826
Operating Expenses							
Other Services	312,739	44,836	101,339	47,948	41,610	27,371	575,843
Supplies & Materials	94,763	4,441	1,970	48,988	40,831	4,434	195,427
Communications	34,088	9,028	20,589	11,144	13,275	32,583	120,707
Travel	73,378	15,509	15,600	10,471	6,315	5,482	126,755
Rent	225,838	19,288	6,410	4,128	99,478		355,142
Repair & Maintenance	18,686	1,033	80	8,732	811	187	29,529
Other Expenses	102,352	38,737	50,268	15,485	6,865	19,996	233,703
Goods Purchased For Resale	156,711					142,172	298,883
Total	1,018,555	132,872	196,256	146,896	209,185	232,225	1,935,989
Equipment & Intangible Assets							
Equipment	13,150			375,945	5,000		394,095
Total	13,150			375,945	5,000		394,095
Grants							
From State Sources			168,040				168,040
From Federal Sources		194,794	160,620				355,414
From Other Sources	47,938						47,938
Total	47,938	194,794	328,660				571,392
Transfers							
Accounting Entity Transfers	1,165					46,752	47,917
Total	1,165					46,752	47,917
Debt Service							
Loans			4,967				4,967
Total			4,967				4,967
Total Expenditures & Transfers-Out	$ 2,133,957	$ 724,891	$ 647,519	$ 1,117,035	$ 623,015	$ 487,769	$ 5,734,186
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	$ 875,133	$ 45,558		$ 623,802	$ 168,051	$ 46,752	$ 1,759,296
State Special Revenue Fund	698,293	10,249	$ 466,399	395,458	441,977	21,252	2,033,628
Federal Special Revenue Fund	90,619	669,084	181,120	20,452	7,784	7,230	976,289
Enterprise Fund	455,597			75,077	5,203	412,535	948,412
Permanent Fund	14,315			2,246			16,561
Total Expenditures & Transfers-Out	2,133,957	724,891	647,519	1,117,035	623,015	487,769	5,734,186
Less: Nonbudgeted Expenditures & Transfers-Out	495,847	26,249	52,125	370,722	36,619	88,034	1,069,596
Prior Year Expenditures & Transfers-Out Adjustments	(1,379)			(871)	(1,981)	(63,683)	(67,914)
Actual Budgeted Expenditures & Transfers-Out	1,639,489	698,642	595,394	747,184	588,377	463,418	4,732,504
Budget Authority	1,762,829	729,307	860,912	765,188	811,741	520,214	5,450,191
Unspent Budget Authority	$ 123,340	$ 30,665	$ 265,518	$ 18,004	$ 223,364	$ 56,796	$ 717,687
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	$ 19,425			$ 27	$ 2		$ 19,454
State Special Revenue Fund	26,079		$ 82,845	1,544	28,176	$ 8,492	147,136
Federal Special Revenue Fund	35,026	$ 30,665	182,673	15,043	193,689	4,470	461,566
Enterprise Fund	42,810			1,390	1,497	43,834	89,531
Unspent Budget Authority	$ 123,340	$ 30,665	$ 265,518	$ 18,004	$ 223,364	$ 56,796	$ 717,687

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	NO PROGRAM SPECIFIED	ADMINISTRATION PROGRAM	HERITAGE COMMISSION	HISTORIC PRESERVATION PROGRAM	LEWIS & CLARK BICENTENNIAL	LIBRARY PROGRAM	MUSEUM PROGRAM	PUBLICATIONS PROGRAM	TOTAL
Personal Services									
Salaries		$ 691,142	$ 527,970	$ 289,993	$ 90,731	$ 418,351	$ 322,661	$ 246,926	$ 2,587,774
Employee Benefits		188,570	162,997	81,383	23,038	121,741	96,206	76,268	750,203
Personal Services-Other	$ (104,451)					256		63,683	(40,512)
Total	(104,451)	879,712	690,967	371,376	113,769	540,348	418,867	386,877	3,297,465
Operating Expenses									
Other Services		229,583	161,461	39,138	214,500	64,787	93,513	73,843	876,825
Supplies & Materials		109,102	71,566	13,468	4,186	45,413	38,505	11,672	293,912
Communications		31,180	34,942	9,684	10,895	9,788	13,155	40,586	150,230
Travel		72,426	36,651	16,418	14,295	3,653	4,394	3,747	151,584
Rent		189,210	6,577	13,565	5,645	3,535	96,053	336	314,921
Utilities		6,209	26,979						33,188
Repair & Maintenance		19,259	69,163	1,069		4,295	3,114	250	97,150
Other Expenses	(226)	100,081	40,350	9,920	22,002	10,558	2,922	159,403	345,010
Goods Purchased For Resale		250	18,711					267,473	286,434
Total	(226)	757,300	466,400	103,262	271,523	142,029	251,656	557,310	2,549,254
Equipment & Intangible Assets									
Equipment	(5,000)	11,484				(364,321)			(357,837)
Total	(5,000)	11,484				(364,321)			(357,837)
Capital Outlay									
Buildings			8,716						8,716
Total			8,716						8,716
Grants									
From State Sources		29,484	307		145,379				175,170
From Federal Sources				72,110	64,860				136,970
From Other Sources		32,634							32,634
Total		62,118	307	72,110	210,239				344,774
Benefits & Claims									
Insurance Payments							150		150
Total							150		150
Transfers									
Accounting Entity Transfers		32,252						51,506	83,758
Total		32,252						51,506	83,758
Debt Service									
Loans					55,703				55,703
Total					55,703				55,703
Total Expenditures & Transfers-Out	$ (109,677)	$ 1,742,866	$ 1,166,390	$ 546,748	$ 651,234	$ 318,056	$ 670,673	$ 995,693	$ 5,981,983
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund		$ 795,238		$ 59,792		$ 602,405	$ 296,414	$ 51,504	$ 1,805,353
State Special Revenue Fund	$ (5,000)	795,060	$ 929,625	13,437	$ 582,374	(359,117)	331,904	33,613	2,321,896
Federal Special Revenue Fund		91,089	236,765	473,519	68,860	15,721	34,928		920,882
Enterprise Fund	(104,677)	45,399				58,662	7,427	910,576	917,387
Permanent Fund		16,080				385			16,465
Total Expenditures & Transfers-Out	(109,677)	1,742,866	1,166,390	546,748	651,234	318,056	670,673	995,693	5,981,983
Less Nonbudgeted Expenditures & Transfers-Out	(48,734)	514,587	46,904	13,437	12,173	(358,157)	75,384	219,266	474,860
Prior Year Expenditures & Transfers-Out Adjustments	(60,943)	(492)	444	21,264		(17)	(5,220)	(11)	(44,975)
Actual Budgeted Expenditures & Transfers-Out	0	1,228,771	1,119,042	512,047	639,061	676,230	600,509	776,438	5,552,098
Budget Authority		1,376,001	1,888,867	902,304	1,531,875	739,254	624,051	860,607	7,922,959
Unspent Budget Authority	$ 0	$ 147,230	$ 769,825	$ 390,257	$ 892,814	$ 63,024	$ 23,542	$ 84,169	$ 2,370,861
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund		$ 60,647		$ 2,578		$ 34,291	$ 14,220	$ 2,148	$ 113,884
State Special Revenue Fund		38,216	$ 654,776		$ 845,800	1,687	9,130		1,549,609
Federal Special Revenue Fund		11,160	115,049	387,679	47,014	22,928	2	11,700	595,532
Enterprise Fund		37,207				4,118	190	70,321	111,836
Unspent Budget Authority	$ 0	$ 147,230	$ 769,825	$ 390,257	$ 892,814	$ 63,024	$ 23,542	$ 84,169	$ 2,370,861

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Historical Society
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Historical Society (Society) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent funds). In applying the modified accrual basis, the Society records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when it incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Society to record the cost of employees' annual leave and sick leave when used or paid.

The Society uses accrual basis accounting for its Proprietary fund category (Enterprise Fund). Under the accrual basis, as defined by state accounting policy, the Society records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the Society receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Society accounts are organized in funds according to state law applicable at the time transactions were recorded. The Society uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources (other than private purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Society State Special Revenue Fund activity includes the historic sites and signs program and donations. The Montana Heritage Preservation and Development Commission (Heritage Commission) and Montana Lewis and Clark Bicentennial Commission (Bicentennial Commission) operations are also accounted for in the State Special Revenue Fund.

Federal Special Revenue Fund - to account for money received from federal sources used for the operation of state government. Society Federal Special Revenue Fund activity includes: the state's Historic Preservation Office, the Bicentennial Commission, and the Heritage Commission (for fiscal year 2002-03 only).

Permanent Fund - to account for financial resources that are legally restricted to the extent that only earnings, and not principle, may be used for purposes that support the Society's programs. The Society uses this fund for private donations for which the donor permitted the use of investment earnings on the donation.

Proprietary Fund Category

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the Society finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Society Enterprise Funds include the publications program,

merchandise operations, Historical Society Press operations, and library and museum photocopy revenue.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The Society's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2004 and 2003.

3. Expenditure Program

As part of the upgrade to the state's accounting system in fiscal year 2003-04, state officials determined that an organization (org) designation would identify the program to which expenditures should be charged. State officials did not require nonbudgeted expenditure transactions to be identified to an org. The program designations made on the Schedule of Total Expenditures & Transfers-Out are based on the org designation used when the expenditures were recorded. This nonbudgeted activity is included in the column titled "No Program Specified" on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2003.

4. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue, Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. During both fiscal years 2002-03 and 2003-04, the Society received support for certain programs from other agencies. In the General Fund, the Society receives support for its operations. In the Special Revenue funds, the Society receives an allocation of the accommodations tax for the historic sites and signs program.

5. Related Party Transactions

The Montana History Foundation (Foundation) exists to promote, assist, and benefit the operations of the Society, Bicentennial Commission, and the Heritage Commission, which is now part of the Department of Commerce. The Foundation may also advise and

assist the trustees of the Society regarding fund-raising activities. The Bicentennial and Heritage Commissions have entered into separate agreements with the Foundation for assistance in fund-raising and related activities. Members of the board of directors of the Foundation include the current president of the Historical Society Board of Trustees (Board) or a designated representative from the Board. The board of directors of the Foundation may authorize an agent from the Society to enter into contracts on behalf of the Foundation.

The Society and the Bicentennial and Heritage Commissions received a combined total of $45,444 from the Foundation in fiscal year 2002-03 for support programs. The Society and the Bicentennial Commission received a combined total of $128,407 from the Foundation in fiscal year 2003-04 for support of programs. In exchange for these services, the Society and the Bicentennial and Heritage Commissions paid the Foundation $339,588 in fiscal year 2002-03, and the Society and Bicentennial Commission paid the Foundation $164,851 in fiscal year 2003-04.

6. Volunteers

Society personnel rely on a wide range of volunteers in accomplishing the purposes assigned to them in state law. The Society uses volunteers in various capacities, including but not limited to, operating the museum store, giving tours, conducting research, creating exhibits, working in the archives, and providing administrative office assistance. Volunteers contributed approximately 10,700 and 8,500 hours to the Society in fiscal years 2002-03 and 2003-04, respectively.

Agency Response

MONTANA HISTORICAL SOCIETY
225 North Roberts ⋄ P.O. Box 201201 ⋄ Helena, MT 59620-1201
⋄ (406) 444-2694 ⋄ FAX (406) 444-2696 ⋄ www.montanahistoricalsociety.org ⋄

October 12, 2004

RECEIVED
OCT 1 4 2004
LEGISLATIVE AUDIT DIV.

Scott A. Seacat, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, Mt 59620-1705

RE: Montana Historical Society Audit

Dear Scott:

The response to the audit recommendations for the Montana Historical Society are as follows:

Recommendation #1 *We recommend the Society draw federal funds in accordance with federal regulations.*

The Society concurs with this recommendation.

We have changed our procedures. Previously, we drew cash in anticipation of expenditure payouts by the State Historic Preservation Program. We now run a weekly cash report and do not draw cash until the fund is negative.

Recommendation #2 *We recommend the Society comply with policies governing the management of its collections and follow its monitoring procedures to ensure all artifacts are properly controlled.*

The Society concurs with this recommendation.

The collections are cared for as well as possible with existing funding and staffing levels and existing antiquated facilities. The Society follows the guidelines described in the American Association of Museums book *The New Registration Methods, 1998*. The museum has been accredited by the American Association of Museums in 1973, and subsequently in 1984 and in 1998. The Museum adheres to the ethical guidelines and standards for museums required for maintaining accreditation. Artifacts are stored or displayed in a proper environment. The museum regularly confers with Tribal consultants, fine art, and material culture scholars regarding specialized care of objects. Expert conservators are consulted regarding the care of art and artifacts. Access to artifacts is restricted to museum collections staff. Staff and volunteers are highly skilled in the correct handling of artifacts. Each incoming item is treated with the care and respect it deserves. The removal of artifacts from storage or exhibit is strictly controlled. Location changes are recorded into the museum collections database.

Since acquiring the museum collections management software in 1999 through a federal grant, collections management has become more accurate and efficient. All new incoming items are accessioned, then cataloged, their condition assessed, and location recorded within the new system. All items going out on exhibit or out on loan are recorded in the database. All incoming loan items are similarly accounted for, following the requirements and guidelines of the *Museum Loan Act*. Hard copies of the records are printed out and kept on file. Computer back-ups to the database are performed regularly.

Despite not completing a total inventory since 1985, the Society documents the state's historic treasures in accordance with Society policy and monitors artifacts on a regular basis. Through the course of our daily activities such as rotating items on exhibit, preparing items for special exhibits, and preparing artifacts to go out on loan, museum staff regularly documents objects from the collection. In addition to these activities, we answer numerous reference requests to the public and scholars about our artifacts. Each of these daily activities provides us with a means of updating and correcting our records. Artifacts are inventoried, their condition assessed, items are cataloged when required, accession conflicts are resolved, permanent storage locations as well as current exhibit locations are recorded. Special conservation projects funded by federal grant dollars have also provided us with the opportunity to monitor condition, survey, and inventory objects on a project-by-project basis. Please see the list of inventories completed below:

Inventories Completed 1990-1994

- Textile collection (MS-C, D, H, & W), c. 1992. Numbers recorded on boxes; location cards changed.
- Paintings Collection (MS-A), 1995–1996 . Master inventory on curator's computer; working copy in art storage.
- Native American Collection (MS-I), 1993 . Drawer inventories in drawers; locations cards changed.
- Scriver Collection (Browning), May – Aug 2000. Inventory file in curators office and on computer.
- Original Governor's Mansion (OGM), 2000. Card catalog changed at OGM.
- Gun collection (SR-G); ca. 1998. Gun cards changed.
- Conservation grant; spot-checked 10% of all collections, 1989–1990. Location cards changed.
- Regularly inventory all incoming collections at time of accessioning (donor files in registrar's office).
- Regularly inventory for all in-coming and outgoing loans (loan files in registrar's office).
- Regularly inventory for all temporary exhibits, including the following (exhibit files in curator's office).
    - *Waiting for a Chinook: A History of Montana Winters,* 1990
    - *Looking Forward—Looking Back* (statehood centennial), 1991
    - *Curing Ills and Healing Wounds: Medicine in Montana*, 1991
    - *Montana's Many Faces* (historic portraiture), 1992

- *A Stitch in Time* (textile art), 1992
- *Buildings in the Balance* (preserving Montana's historic architecture), 1993
- *Cutapuis—The Man Who Talks Not: The Art of J.L. Clarke*, 1993
- Native American Ledger Art, 1993
- *The Horse in Art*, 1994
- *Riders Under the Big Sky* (saddles and related horse gear), 1995
- *The Lure of the Parks* (state and national parks in Montana), 1996
- *Painting Ladies: Women Artists and the Montana Experience,* 1997
- *Montana Monthly* (historic calendars), 1998
- *Rush to Glory: Montanans at War, 1898,* 1998
- *Off the Top: Hats in History,* 1998
- *Through the Artist's Eye: The Paintings and Photographs of R.E. DeCamp,* 1999
- *A Capital Capitol* (history of the Montana statehouse), 1999
- *Selections from the Collection* (Western art), 1999
- *To Picture a People* (Native American portraiture), 2000
- *Life on the Upper Missouri: The Art of Karl Bodmer* (co-curated), 2000
- *'Pay Dirt' Pictured: The Mining Camp Art of Muriel Sibell Wolle* , 2000
- *A Legacy in Bronze: The Art of Bob Scriver,* 2001
- *An Honest Try: Bob Scriver's Rodeo Bronzes*, 2002
- *A Fairy Alphabet* and *Sonnysayings Cartoons* (The Art of F. Y. Cory), 2002
- *Treasure State Treasures* (selections from the collection), 2003
- *L. A. Huffman: Photographer of the American West*, 2004

In addition, the Museum Registrar will implement an annual spot inventory and shelf inventory procedure to be completed each year in December of at least 20 items. These annual inventories will be implemented until a full inventory can be completed. After a full inventory has been achieved, annual spot/shelf inventories will continue to be performed.

The backlog items (re-accessioned items or those not ever accessioned with a registration number) are another issue. The museum collection has been cataloged by over 10 types of systems since 1892. Therefore, there exists a large number of artifacts with limited documentation. We have been and continue to work towards the goal of having all of the Museum collection records entered in our museum software program and all artifacts fully cataloged. We are well on our way, but it will be years yet until we have all of the accessioned and cataloged artifacts in the computerized system. This is a Herculean task that cannot be done unless we have the necessary staff resources infused to the Museum Collections Office for this purpose. The alternative is the approach we have been using – use current staff and trained volunteers doing what they can to get the information into the system.

Specific responses to *Financial-Compliance Audit Findings and Recommendations, Controls Over Historic Treasures:*

Paragraph 2 –

"one of the artifacts wasn't tagged or given an identification number"

- Using the artist signature on the sculpture, we searched the artist card files from which we found that the item was a MHS purchase from 1964.
  Action Taken: The item was then officially reaccessioned, properly tagged, cataloged and assigned a permanent number and location.

"one of the accession cards contained the wrong description of the artifact"

- The reference to "accession" cards in the auditor's report is no longer correct terminology and should be described as "catalog" cards. There are "accession records," but the cards are "catalog cards." This artifact had a tie tag that was incorrect. The permanent number on the bottom of the artifact matched the catalog record.
  Action Taken: The incorrect tag was removed, no other action required.

"five of the artifacts didn't have location cards, and four of the artifacts didn't have accession cards,"

- All of the numbered artifacts did have accession records detailing their donation history (accession records are kept separately in the accession log and the individual donor files). Although there were no catalog cards for these items, they did have accession records on file.
  Action Taken: Locations cards for the five artifacts were created and recorded

Paragraph 3 –

"The last spot inventory review was completed in December of 2003, where the Society reviewed 20 artifacts and found five of the location cards contained incorrect physical location and three of the items had no location card"
Action Taken: All items were located, locations were updated and recorded.

"They also inventory all artifacts when placing them on exhibit in the museum"
- For example: In the *Treasure State Treasures* exhibit alone, 528 items were inventoried and when required items were cataloged, accession conflicts resolved, permanent storage location as well as current exhibit location were recorded. The use of artifacts in exhibits continues to serve as a means to updating our old records.

Recommendation #3 *We recommend the Society provide training to accounting staff concerning accounting policies issued by the Accounting Bureau of the Department of Administration.*

The Society concurs with the recommendation and will provide appropriate training when the new Centralized Services Manager begins employment, 4 October 2004.

We have moved to make corrections noted in the findings where necessary to conform to the State of Montana accounting policy and minimize accounting errors. Many of the errors identified were one-time occurrences, and a fully staffed Centralized Services Office will reduce the chance of re-occurrence of these errors.

Specific responses to *Financial-Compliance Audit Findings and Recommendations, Accounting Misstatements:*

Paragraph 2 -

"State accounting policy requires all federal indirect cost recoveries received to be deposited in the federal special revenue fund as revenue using a Federal Indirect Cost Recoveries account. We found the Society didn't record these funds in a revenue account tied to the Federal Indirect Cost Recoveries, but recorded portions of these costs as "Federal" and "Charges for Services" revenue in fiscal years 2002-03 and 2003-04."

The Society is reviewing its current policies and procedures in collecting, recording, determining indirect cost allocation, and capturing these costs to assure compliance with state accounting requirements.

Paragraph 3 -

"The Society receives numerous artifacts each year through donations...In fiscal year 2002-03, the Society recorded these fixed assets in the wrong ledger. As a result, equipment & intangible asset expenditures are understated..."

The issue of intangible assets was a one-time accounting error in this biennium and we will assure that it is not repeated.

Paragraph 4 -

"...we reviewed a sample of 20 expenditure transactions and noted one transaction that was made to the State Revenue Fund in fiscal year 2002-03 for $14,507 that was not supported."

The unsupported transaction listed was a correcting entry to Montana Heritage Commission funds. It was generated by Commission personnel and approved by the Society accountant. Management oversight of the Montana Heritage Commission (Virginia and Nevada Cities) was moved to the Department of Commerce in the last legislative session, therefore the Society will not deal with any accounting issues regarding this Commission in the future.

Paragraph 6 -

"The Bicentennial Commission entered into an agreement with the Board of Investments for a loan in fiscal year 2001-02. The commission received $100,000 in loan proceeds but did not record the revenue. In fiscal year 2002-03 the Society corrected this error by recording the revenue associated with the loan proceeds. As a result, Other Financing Sources revenue is overstated by $100,000..."

In FY02 the loan funds were recorded as Long Term Notes Payable. In FY03, DOA instructed Society personnel that this was the incorrect coding and to record the loan funds as revenue. In FY04, DOA issued a management memo correcting the incorrect accounting policy of recording loan proceeds as revenue. The current policy correctly records the liability for the loan principal directly to the balance sheet liability accounts. In FY04, the Society's accounts were correct.

Paragraph 7 -

"The Society receives refunds of unspent grant funds from outside parties and reimbursements, from organizations that sponsor conferences held by the Society. When the Society receives these refunds or reimbursements, they record the funds as revenue."

We agree with the finding. In several cases where grant refunds were returned, the refunds were for authority in a previous biennium. In the future, the Society will reduce the original expenditure.

Paragraph 8 -

"In addition, the Society recorded various Grants, Contracts, Donations, and Abandonments revenue transactions as Sale of Documents, Merchandise and Property."

The Society agrees that some revenues were improperly recorded. The Society has reviewed SABHRS defaults for the accounts in question and changed the account default where applicable.

Recommendation #4 *We recommend the Society manage the Moss Mansion in compliance with provisions of section 22-3-603(4) MCA or if necessary, seek legislation to have the law changed."*

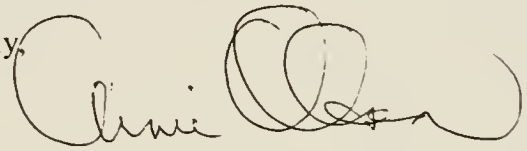
The Society concurs with this recommendation.

The Montana Historical Society agrees that this issue needs to be resolved and feels that new legislation is needed. This new legislation would provide oversight of the Moss Mansion within a more practical schedule given the budget and staffing restraints of the Society. This legislation has been proposed as a "Governor's bill" and has cleared the Education and Local Government interim committee. The bill has been assigned to Legislative Services and has been assigned an

LC number (LC407). The bill provides for a biennial financial review rather than a quarterly audit and also allows for additional reviews if there is a significant change of leadership at the Moss Mansion or any other reason to suspect a review is needed. The Moss Mansion receives no funds from the Montana Historical Society and raises all of its own resources for operations and capital improvements.

For additional information, please contact the undersigned at 444-5485.

Sincerely,



Arnold Olsen
Director

AO:rha

Enclosures